

Montana Lottery

Financial Audit

BIDDER INFORMATION AND BID FORM

May 2006

Table of Contents

Section I – Project Overview and General Provisions	1
Project Overview	1
General Provisions	1
Section II – Lottery Information	3
Lottery Background	3
Section III - Scope And Objectives of Work Requested	4
Scope of Work Requested.....	4
Bid Response Procedures.....	4
Additional Information	5
Appendix A	A-1
Audit Contract.....	A-1
Appendix B	B-1
Sample Response Document	B-1
Part A - Time Proposal	B-2
Part B - Price Proposal.....	B-3
Part C - Approach For Conducting Audit.....	B-4
Part D - Staffing Proposal	B-5
Part E - Firm's Auditing Experience	B-6
Part F – Information To Be Provided To The Legislative Audit Division	B-7
Part G - Arrangements For Independent Review Of Audit Report And Working Papers.....	B-8

Section I – Project Overview and General Provisions

The following information was assembled by the Legislative Audit Division (hereinafter referred to as “State”) in consultation with the Montana Lottery (hereinafter referred to as “Lottery”) to aid prospective bidders in the preparations of their bid. The information provided in this document and described on the following pages is unaudited and, as such, we cannot certify that all transactions and financial activities are disclosed in these reports.

Project Overview

The State invites you to submit a bid for the financial-compliance audit of the Montana Lottery. A more complete description of the services sought for this engagement is provided on Page 4. Bids submitted in response to this invitation must comply with the instructions and procedures contained herein.

General Provisions

1. It is our intent to award a contract to the winning bid for a financial audit of the Lottery for the fiscal year ended June 30, 2006. Renewals of the contract, contingent upon satisfactory performance by the successful bidder, may be made after the initial contract period at a price mutually agreed upon by the parties to the contract.
2. By submitting a response to this invitation for bid, the bidder agrees to acceptance of the contract as set out in Appendix A. The State reserves the right to make any changes to the contract.
3. The successful bidder will be required to provide proof of worker’s compensation insurance or an Independent Contractor Exemption before the contracted work is to begin and must be kept current for the entire term of the contract.
4. Firms may join with other firms in a joint venture bid. If this is done, one firm should be designated the prime contractor and the other firm or firms, subcontractors. This is required to facilitate the execution and completion of the engagement.
5. The last audit of the Montana Lottery conducted by a firm under contract with our office for the fiscal year ended June 30, 2005. That audit cost was \$12,000 for 180 hours of audit work. The working papers from that audit will be available for review by the successful bidder by appointment from the State.
6. The State has established a bid evaluation process which will consider the following: appropriate background and experience; appropriateness and adequacy of proposed procedures; reasonableness and appropriateness of time estimates; appropriateness of assigned staff levels; timeliness of expected completion; technical experience, qualifications, size and structure of firm; and cost. Bids will be opened and evaluated in Room 160, State Capitol, at 9 a.m. on June 7, 2006.
7. The State will provide a maximum of four hours' consultation to the successful contract auditor without charge. If the State provides consultation in excess of four hours, the contractor will be charged at the average hourly rate bid by the contractor for the engagement or the State’s rate, whichever is greater. The firm will be kept advised of these charges.

8. Work papers supporting the audit report must be made available to the State at the Legislative Audit Division offices upon request. It is anticipated the work papers for this audit will be subject to review by Legislative Audit Division staff for the purposes of quality control. All engagement documentation must be kept for a period of no less than five years from the date of issuance of the audit report, as specified in the contract.
9. The information provided in this document may provide a reasonable basis for the preparation of a bid. If, however, additional information is required, the bidder may contact Angie Lang, contract liaison, of the Legislative Audit Division at (406) 444-3122. The bidder is encouraged to become familiar with the Lottery's operations through visitation, if necessary, and discussion with appropriate Lottery officials before submitting a bid.

Section II – Lottery Information

Lottery Background

The Montana Lottery was created by the electorate through passage of Referendum 100 during the November 1986 general election. When the referendum passed, the "Montana State Lottery Act of 1985" became effective. This act can be found in Title 23, chapter 7, MCA.

The Montana Lottery, which is headquartered in Helena at 2525 North Montana Avenue, designs and markets lottery games that allow players to purchase chances at winning various prizes. A five-member commission, appointed by the Governor, sets policy and oversees activities and procedures of the Lottery. The governor also appoints a Lottery Director who coordinates the Lottery's marketing, operations, security, and administration divisions. The website address for the Montana Lottery is: <http://www.montanalottery.com/>

The Montana Lottery is subject to an annual audit by or at the direction of the Legislative Auditor (23-7-410, MCA). The audit report for the period ending June 30, 2005 can be found at: <http://leg.mt.gov/content/audit/download/05C-02.pdf>.

Section III - Scope And Objectives of Work Requested

Scope of Work Requested

This is a request for a financial audit of the Montana Lottery. The audit is to be for the fiscal year ended June 30, 2006.

1. The audit must be performed in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget, Circular A-133, standards published in the AICPA Industry Audit Guide, AICPA Audit and Accounting Guide: State and Local Governments with conforming changes as of May 1, 2004; Government Auditing Standards, 2003 Revision, published by the United States Government Accountability Office and generally accepted auditing standards issued by the AICPA.
2. The contracted auditor must render an opinion on the financial statements for the fiscal year ended June 30, 2006.
3. The contracted auditor must determine the Lottery's compliance with applicable state and federal regulations and report violations in the auditor's report.
4. A report on compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards shall be included. This report must comply with applicable professional standards in effect for the fiscal year or years being audited.
5. The contracted auditor must obtain written Lottery replies to management, internal control and compliance recommendations. The Lottery must be allowed two weeks to respond to the final audit report. If any other entities are involved in implementing a recommendation, the entity must be invited to respond in writing to the recommendation.
6. The contracted auditor must prepare a summary of recommendations, including notation of Lottery concurrence or non-concurrence.
7. The contracted auditor must print and submit 75 copies of the bound report to the State. The report will be bound in covers provided by the State, and the report will include a transmittal letter provided by the State. Reports must be provided to the State by October 15, 2006.

Bid Response Procedures

Your bid should be designed to demonstrate your understanding of the work required, the ability and qualification of your firm in relation to the work and your firm's charges to accomplish the work. See Appendix B for a sample response document. Your bid must be clearly labeled for the engagement it relates to, dated and signed by the responsible party with contact information included. Your bid must also include:

- Your approach to completing the audit including an estimated time line.
- Your hour estimate by appropriate category including travel time with travel locations indicated as appropriate.

- Your firm's price for performance of the audit engagement. Cost figures should include the hourly rate, by assigned person, your firm would charge for work beyond the scope of the initial engagement if necessary.
- Your firm's work experience including a percentage breakdown of auditing experience and governmental experience.
- Your staffing plan along with the audit experience of the assigned auditors.

Your completed bid must be sealed in an envelope and labeled "Bid – Montana Lottery Financial Audit 2006" and delivered to:

The Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

By 2:00 p.m. June 6, 2006

If the contract auditor intends to disclaim an opinion on any financial statement, the auditor must inform the State of that intention as soon as possible after determining a disclaimer of opinion is necessary.

Additional Information

The Legislative Fiscal Division prepares a Legislative Fiscal Report on state government after each Legislative Session. The discussion on the Montana Lottery can be found within the Department of Administration's section at: http://www.leg.mt.gov/content/publications/fiscal/fr_2007/fr_a/admin.pdf.

The Lottery will conduct a physical inventory in the week of June 26-30, 2006. The successful bidder would be able to observe the inventory if they so choose.

Appendix A

Audit Contract

BY THIS CONTRACT, made this _____ day of _____, 2006, by and between the Montana Legislative Audit Division, hereinafter referred to as the "LAD," and Montana Lottery, hereinafter referred to as the "Lottery," and _____ (Federal Employer No. _____), hereinafter referred to as the "Accountants," it is hereby agreed that:

Scope of Work

1. The Accountants will conduct a financial audit of the Montana Lottery for the fiscal year ending June 30, 2006. The examination shall be made in accordance with generally accepted auditing standards as adopted by the American Institute of Certified Public Accountants, and will include such tests of the accounting records and such other auditing procedures as the Accountants shall deem necessary and appropriate for the purpose of expressing an opinion on the financial statements presented in the required report. The Accountants do not, however, guarantee that such tests and procedures will disclose shortages or other irregularities, should any exist.
2. The scope of the audit shall include an examination of the Lottery's financial statements for the fiscal year ending June 30, 2006. The audit shall include tests of compliance with applicable statutes and regulations. The audit shall include any other requirements set forth in the bidder information (dated May 2006) prepared by LAD for this audit. Such bidder information is by this reference made a part of this contract, except as expressly modified by the terms of this contract.
3. The Accountants will notify LAD immediately if an opinion cannot be expressed on any of the Lottery's financial statements.
4. The Accountants shall render a comprehensive written report of comments and recommendations to LAD which shall include, but not be limited to, the following matters:
 - a. Lottery's compliance with applicable state and federal statutes and regulations.
 - b. Any Lottery program or activity not authorized by the Montana State Legislature that may be noted during the audit.
 - c. Any serious inadequacies in financial or operating controls and procedures that may be noted during the audit together with the Accountant's recommendations.
 - d. Any inadequate record or records that do not comply with statutory or other requirements that may be noted during the audit.
 - e. Any duplications and inefficiencies in record keeping or operating procedures that may be noted during the audit.
 - f. Financial statements of all funds in a form approved by LAD, including the Accountants' opinion thereon.
 - g. A table of contents and numbered pages.
 - h. A summary of recommendations, including notations of the Lottery's responses.

- i. A list of administrative officials.
 - j. Lottery replies from all agencies involved in the Accountants' report findings.
 - k. All other matters as must be mutually agreed to by the Accountants and LAD.
5. The report will exclude all proper names of individuals except as required in the list of administrative officials and in formal agency responses.
 6. Significant deficiencies in internal control or unusual financial transactions shall be reported to LAD as soon as possible after such matters have been observed by the Accountants. Any apparent penal violations discovered during the audit shall be reported immediately in writing to LAD, and the Accountants agree not to divulge any information thereon to anyone unless authorized by LAD.

Confidentiality

7. The Accountants agree to maintain the confidentiality of those records of the Lottery that may be confidential, except that LAD shall have access to such confidential records. Accountants must abide by all applicable federal and state laws governing confidentiality. Accountants must also complete a federal confidentiality training program and sign an attestation of completion. Any and all disclosures of public information will be made by LAD. Accountants should refer all requests and corresponding information to LAD liaison for public dissemination.

Independent Contractor

8. LAD recognizes that the Accountants are independent public accountants and that the Accountants will not be requested nor required to surrender their "independence," as such term is professionally understood and used concerning public accountants. The Accountants shall at all times be deemed independent contractors and not employees of LAD. The Accountant shall furnish certification from the Division of Workers' Compensation establishing either that he has elected workers' compensation coverage for himself or has an approved exemption from coverage as required by section 39-71-401, MCA, before the beginning date of the contract.

The Accountant certifies, by submitting this bid or proposal, that neither it nor its principals are presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this transaction (contract) by any governmental department or agency. If the Accountant cannot certify this statement, attach a written explanation for review by LAD.

Consulting and Assignability

9. The Accountants shall obtain the written approval of LAD prior to the engagement of correspondent public accountants or consultants to provide services in connection with this audit. The contractor shall not assign, transfer or subcontract any portion of the contract without the express written consent of the State.

Workpaper Availability and Retention

10. LAD shall have access, in the Legislative Audit Division, for review purposes, to the Accountants' audit programs, supporting working papers, the draft of the proposed audit reports, time records, and all other documents relating to the audit. The Accountants also agree to make the audit programs and supporting working papers available to LAD, in the Legislative Audit Division, for use by LAD or other public accounting firms as directed by LAD in future audits of the Lottery. The Accountants shall not destroy the audit programs and working papers for five years from submission of the audit report to the Legislative Audit Committee.

Audit Committee

11. The Accountants agree to appear before the Montana Legislative Audit Committee when the report is formally submitted to answer questions concerning the report, and further agree to abide by the rule of the Legislative Audit Committee that no news releases shall be made. Failure to appear at the designated Legislative Audit Committee meeting will result in a penalty of 10 percent (10%) of the contract price that shall be withheld from the final payment to the firm.

Discrimination

12. No part of this contract may be performed in a manner which discriminates against any person on the basis of race, color, religion, creed, political ideas, sex, age, marital status, physical or mental handicap, or national origin by the persons performing the contract. Neither will the Accountants discriminate against any employee or applicant for employment because of race, religion, creed, color, or national origin, or because of age, physical or mental handicap, marital status, or sex when the reasonable demands of the position do not require such a distinction; actions in which such discrimination is prohibited include, but are not limited to, employment, upgrading, demotion, transfer, recruitment or recruitment advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeship. Any hiring must be on the basis of merit and qualifications directly related to the requirements of the particular position being filled. The Accountants also agree to comply with the applicable provisions of state and federal minimum wage laws.

Hold Harmless and Indemnification

13. The Accountants agrees to protect, defend, and save LAD, its elected and appointed officials, agents, and employees, while acting within the scope of their duties as such, harmless from and against all claims, demands, causes of action of any kind or character, including the cost of defense thereof, arising in favor of the Accountant's employees or third parties on account of bodily or personal injuries, death, or damage to property arising out of services performed or omissions of services or in any way resulting from the acts or omissions of the Accountant and/or its agents, employees, representatives, assigns, subcontractors, except the sole negligence of LAD, under this agreement.

Exclusivity

14. The Accountants agree that they will not arrange for, or accept non- auditing work with the Lottery while the audit is in process without the approval of LAD in writing.

LAD Consultation and Assistance

15. LAD will provide a maximum of four hours consultation to the Accountants without charge. Any consultation requested of LAD's staff exceeding the four hours will be provided at the Accountants' expense. The Accountants will be charged for consultation at a rate which equals the average hourly rate bid by the Accountants in their contract for the audit engagement or the LAD rate, whichever is greater. Charges for consultation exceeding four hours will be deducted from progress payments made to the Accountants as the job progresses.

Timeframe

16. The audit shall begin on _____ with 75 copies of the final audit report as described in the bidder information to be delivered to LAD by October 15, 2006, unless an extension of time has been requested by the Accountants and granted by LAD in writing. The final report will be bound in report covers provided by LAD, and the first page of the report following the title page will be a transmittal letter provided by LAD. A request for an extension of time to complete the contract must be in writing and will

be granted only for good cause shown as determined by LAD. Failure of the Accountants to complete and deliver the final report to LAD by October 15, 2006, will result in a penalty of 2.5 percent (2.5%) of the contract price per week, or portion thereof, being assessed against the Accountants by LAD, unless an extension of time has been granted by LAD. Any penalties assessed by LAD will be subtracted from the amount owing to the Accountants from LAD under this contract. LAD reserves the right to terminate the contract if the Accountants fail to complete and deliver the final report by the date specified above

Audit Liaison

17. LAD will designate one staff member as contract liaison to serve as liaison between LAD and the Accountants for purposes of fulfilling the terms of this contract. All communications, requests, and billings between the Accountants and LAD will be submitted through the contract liaison. Contract liaison for this audit is Angela Lang.

Billing and Payments

18. The Accountants will submit a final time report to LAD after the Legislative Audit Committee meeting in which the audit report is presented. The time report will be in the form prescribed by LAD.

The Accountants shall submit, on forms provided by LAD, all billings to LAD for approval and, upon approval, LAD will forward the billings to the Lottery. The Lottery will then process such billings for payment. Compensation to the Accountants pursuant to this contract for services and expenses shall be \$xx,xxx. Any payments in excess of this amount must be the result of a separate written contract between the Accountants, the Lottery, and LAD. A retention of twenty percent (20%) of each approved payment will be made by the Lottery until the final audit report has been delivered to LAD and presented to the Montana Legislative Audit Committee and until LAD has received a final time report.

Performance Review

19. Contingent upon satisfactory performance the Accountants may have the opportunity to annually renew this contract for the next contract term (the fiscal year ending June 30, 2007) at a price agreed upon by both parties. Should the Legislative Auditor and Accountants be unable to negotiate a mutually acceptable fee, the contract may be put out for bid for the subsequent audit period.

Termination and Default

20. LAD may, by written notice to the Accountants, terminate this contract without cause. LAD must give written notice of termination to the Accountant at least 30 days prior to the effective date of termination. In the event of default and nonperformance of the contract by the Accountants as determined by LAD, the right to any compensation under the terms of this contract is forfeited. LAD at its sole discretion may terminate or reduce the scope of this contract if available funding is reduced for any reason.

Governing Law

21. The laws of the State of Montana shall govern the construction and interpretation of this contract. For all proceedings among the parties to this contract arising hereunder, venue shall be the First Judicial District Court in and for Lewis and Clark County, Montana.

Limits, Modification, Severability, and Amendment

22. This contract contains the entire understanding and agreement of the parties. No modification or amendment thereto shall be valid unless the same is reduced to writing and made a part of this contract. A declaration by any court, or any other binding legal source, that any provision of the contract is illegal and

void shall not affect the legality and enforceability of any other provision of the contract, unless the provisions are mutually dependent.

Legislative Audit Division
Scott Seacat
Legislative Auditor

By_____ Date_____

Montana Lottery

By_____ Date_____

Accountant Contractor

By_____ Date_____

Legislative Audit Division
Approved for Legal Content:
Monica Smith, Attorney

By_____ Date_____

Appendix B

Sample Response Document

Legislative Audit Division

Public Accountant Engagement Proposal

NOTICE: The Legislative Auditor reserves the right to make counter-proposals, reject all proposals, and call for new proposals, with or without modification of the proposed engagement.

Proposed Engagement: Montana Lottery Financial Audit

Date of Proposal: _____

Name and Signature of Firm Representative:

NAME: _____

FIRM NAME: _____

SIGNATURE: _____

Part A - Time Proposal

1. Proposed Dates for Engagement:

<u>Segment</u>	<u>Date</u>
a. Sign the contract for the engagement	_____
b. Conduct entrance conference	_____
c. Submit final report to Legislative Auditor	_____

2. Proposed Time for Engagement

<u>Segment</u>	<u>Man-Hours</u>
a. Planning and Programming	_____
b. Field Work	_____
c. General Program and Subsequent Events Review	_____
d. Review of EDP Controls	_____
e. Administration, including meeting with Legislative Audit Committee	_____
f. Report Preparation	_____
g. Other Segments – Lists	_____
_____	_____
_____	_____
_____	_____
Total Man-Hours	=====

3. Proposed Time Associated with Travel

(List anticipated sites & time where travel is expected to be necessary.)

<u>Proposed Travel Sites</u>	<u>Man-Hours</u>
_____	_____
_____	_____
_____	_____
Total Man-Hours	=====

Part B - Price Proposal

Proposed Price for Audit Work:

- Price
1. Price which the firm proposes to charge for performance of the Audit Engagement:

\$ _____
- (a) Include all costs normally associated with the engagement, such as the audit work itself, engagement of consultants, review of Lottery reply, explanation of the report, and initial appearance before the Legislative Audit Committee.
- (b) Exclude the cost of travel and subsequent appearance before the Legislative Audit Committee.
2. Proposed Price for Travel:
- Price which the firm proposes to charge for travel and transportation associated with this engagement:

\$ _____
3. Total price proposed for this agreement:

\$ _____
4. Proposed hourly rate(s) which the firm would charge for supplementary efforts in conjunction with this engagement, such as subsequent appearance before legislative committees, hearings, etc.

<u>Staff Member</u>	<u>Hourly Rate</u>
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Part C - Approach For Conducting Audit

Please list how your firm will conduct the audit and any special services your firm will provide.

Part D - Staffing Proposal

Please list all audit staff you anticipate will be assigned to this engagement and their relevant experience.

If the listed staff assignments change, please notify the Legislative Audit Division.

Part E - Firm's Auditing Experience

Please list governmental audits recently completed by your firm, including a list of the recent audit experience of the staff identified in Part D. Also list audit experience relevant to the audit work being contracted for. **Please include contact information for all audits.** The parties listed may be contacted as references.

Part F – Information To Be Provided To The Legislative Audit Division

Name of Firm/Practitioner:

Location:

Home Office:

Branch Offices:

Nature of services provided by your firm during the past three years:

Approximate PercentageAuditing

Tax

Write-up

Management Services

Other

100%

Nature of auditing experience during the past three years:

Approximate PercentageGovernment

Financial Institutions

Nonprofit Organizations

Manufacturing and Industrial

Retail Enterprises

100%

Part G - Arrangements For Independent Review Of Audit Report And Working Papers

Description of your arrangements for independent review:

If these arrangements change, please notify the Legislative Audit Division in advance of the review.